

Message Text

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ACTION EB-11

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C O N F I D E N T I A L LUSAKA 1681

PASS OPIC

E.O. 11652: GDS

TAGS: EIND, ZA

SUBJ: REVISION PHELPS-DODGE CONTRACT

REF: LUSAKA 1612 (NOTAL)

1. SUMMARY: GRZ ALREADY MOVING BEYOND REVISION MINE AGREEMENTS TO TAKE OVER DIRECT CONTROL OF OTHER INDUSTRIES HERE. ACCORDING PHELPS-DODGE INTERNATIONAL, WHOSE ZAMEFA MANAGEMENT CONTRACT GRZ HAS DECLARED INTENTION ABROGATE, GRZ EMBARKED ON PROGRAM TO TERMINATE ALL RPT ALL MANAGEMENT CONTRACTS WITH FOREIGN FIRMS. IN ZAMEFA CASE, INDECO TO TAKE OVER CONTROL OF MANAGEMENT AND RECRUITMENT, CALLING ON PHELPS DODGE FOR SPECIFIC SERVICES WHEN AND AS NEEDED UNDER PROPOSED TECHNICAL CONSULTANCY CONTRACT. NOT YET WHOLLY CLEAR HOW GRZ PLANS PROCEED AND PHELPS DODGE RESERVING ITS RESPONSE WHILE CONSIDERING VARIOUS ALTERNATIVE APPROACHES TO MATTER. TENTATIVELY, PHELPS DODGE HOPES WORK OUT ARRANGEMENT FOR REMAINING IN ZAMBIA WHERE IT HAS DONE WELL. COMPANY CONCERNED GRZ TAKING ON TOO MUCH TOO FAST AND FAILURE COULD PROVIDE NEW OPENINGS FOR EAST EUROPEAN AND SOVIET INVOLVEMENTS HERE. END SUMMARY.

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2. PEHLPS-DODGE INTERNATIONAL PRESIDENT GONZALES AND VICE

PRESIDENT KHALIFA DEPARTED ZAMBIA SEPT 11 AFTER "HEATED" SESSIONS WITH INDECO AND GRZ FOLLOWING ON LATTER'S ANNOUNCEMENT OF INTENTION ABROGATE PHELPS DODGE ROYALTY AGREEMENT AND MANAGEMENT CONTRACT FOR ZAMEFA, PARASTATAL METAL FABRICATION COMPANY WHICH HAS SHOWN HEALTHY PROFIT PAST TWO YEARS. INDECO MANAGING DIRECTOR KASHITA TOLD PHELPS DODGE GRZ PREPARED CONTINUE ENGAGE PHELPS DODGE SERVICES ON CONSULTANCY FEE BASIS, WHICH GRZ INTENDS SWITCH FROM PRESENT PERCENTAGE OF SALES TO PERCENTAGE OF PROFITS. AT ZAMEFA BOARD MEETING SEPT 10, PHELPS DODGE INFORMED THERE NOTHING TO NEGOTIATE; GRZ HAS DECIDED CANCEL ALL MANAGEMENT CONTRACTS WITH FOREIGN COMPANIES AND RECRUIT EXPATRIATES ITSELF. TECHNICAL ASSISTANCE CONTRACT WOULD BE WRITTEN TO PROVIDE ONLY FOR THOSE SERVICES INDECO REQUESTS. PHELPS DODGE TOLD, IF IT NOT INTERESTED IN NEW DEAL, "THERE ARE OTHER PEOPLE WANTING TO COME HERE AND TAKE OVER THIS INDUSTRY." KHALIFA BELIEVES THIS REFERS TO ROMANIANS AND YUGOSLAVS. ONLY INDECO CONCESSION WAS AGREEMENT CONSULT PHELPS DODGE ON TOP SIX ZAMEFA APPOINTMENTS.

3. PHELPS DODGE PARTICULARLY CONCERNED ABOUT DIRECT GRZ RECRUITMENT. AFTER TWO DAYS DISCUSSION, INCLUDING MEETING WITH FINANCE MINISTER MWANAKATWE AND LONG PRIVATE SESSION WITH KASHITA, GONZALES THINKS TOP ZAMBIANS HONESTLY BELIEVE THEY NOW HAVE CAPABILITY COMPLETELY MANAGE OWN AFFAIRS. HE CONSIDERS NOTHING COULD BE FURTHER FROM TRUTH; ZAMBIA MIGHT WELL EVENTUALLY BE FORCED FALL BACK ON OTHERS--PROBABLY EASTERN EUROPEANS AND SOVIETS--TO KEEP COUNTRY RUNNING. PHELPS DODGE ITSELF PRESENTLY HAS 26 EXPATRIATES IN KEY ZAMEFA POSTS, ALL OF WHOM ATTRACTED TO ZAMBIA BY LURE POTENTIAL PHELPS DODGE EMPLOYEMENT AFTERWARD; PRECEDENT ALREADY ESTABLISHED WITH COMPANY TAKING ON FOUR WHOSE CONTRACTS HERE HAVE EXPIRED. KHALIFA NOTED INDECO APPARENTLY UNIMPRESSED WITH EXCELLENT PHELPS DODGE RECORD OF NATIONALIZING MANAGEMENT POSITIONS IN 21 OTHER COUNTRIES. GONZALES BELIEVES GRZ WILL FIND IT IMPOSSIBLE FIND QUALIFIED LOCAL AND EXPATRIATE TALENT; SHORT TERM CONTRACTS NOT SECURE ENOUGH TO INTEREST PEOPLE WITH NECESSARY QUALIFICATIONS. GONZALES OFFERED TAKE THREE OR FOUR QUALIFIED ZAMBIANS AND TRAIN THEM FOR THREE - FIVE YEARS ABROAD FOR TOP ZAMEFA MANAGEMENT JOBS; INDECO ATTRACTED BUT UNABLE PRODUCE SUITABLE INDIVIDUALS, AT LEAST FOR PRESENT, AND PHELPS DODGE BELIEVES IT CANNOT RPT NOT DO SO.

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4. GONZALES/KHALIFA CURRENTLY ASSESSING SITUATION AND PREPARED WAIT TO SEE EXACTLY WHAT GRZ HAS IN MIND. PHELPS DODGE NOT RPT NOT CERTAIN WHAT IMPLICATIONS ARE FOR OPIC INSURANCE, AND EXPECT BE IN TOUCH WITH OPIC UPON RETURN NEW YORK IN TWO WEEKS. PRINCIPAL QUESTION APPEARS BE WHETHER OPIC CONCURRENCE NECESSARY TO ALTER ARRANGEMENT WITH ZAMEFA. RELATED QUESTION IS WHETHER OPIC INSURANCE AUTOMATICALLY LOST IF MANAGEMENT CONTRACT CANCELLED.

5. WHILE HE DEEPLY CONCERNED OVER GRZ MOVE, FOR PRESENT AT LEAST, GONZALES NOT INCLINED TAKE TOUGH STAND. THOUGH PRESENT CONTRACT PROVIDES FOR ARBITRATION BY INTERNATIONAL CHAMBER OF COMMERCE IN BERN, GONZALES COMMENTED COMPANY WOULD PROBABLY "WIN BATTLE BUT LOSE WAR" IF IT ATTEMPTED INSIST GRZ HONOR CONTRACT FULLY AND MATTER SENT TO ARBITRATION.

6. CONSIDERING ALTERNATIVE APPROACHES TO PROBLEM, GONZALES INCLUDING POSSIBILITY BUYING UP OTHER MINORITY SHAREHOLDER--CONTINENTAL ORE, AMAX AND ANGLO-AMERICAN 9.8 PERCENT EACH. PHELPS DODGE SVENSKA METALVERKEN, WHICH ALREADY HOLDS 19.6 PERCENT, COULD THEN NEGOTIATE AS SOLID MINORITY ENTITY, POSSIBLY OFFER SELL SHARES TO GRZ AND SETTLE MANAGEMENT CONTRACT ON BASIS CANCELLATION FEE.

7. GONZALES BELIEVES BEST COURSE FOR NOW IS TO REMAIN ENGAGED. WHILE SELL-OUT TO GRZ WOULD GET PHELPS DODGE EQUITY OUT, COMPANY ENTERED ZAMBIA WITH EYE ON LONG HAUL AND WOULD PREFER REMAIN IF POSSIBLE SINCE ZAMEFA VERY WORTHWHILE PROJECT WHICH DEVELOPING WELL SO FAR. MOREOVER, HE RELUCTANT PROVIDE WHAT HE THINKS WOULD BE OPPORTUNITY FOR ROMANIANS OR YUGOSLAVES GET FOOT IN DOOR AT HIS EXPENSE.

8. GONZALES HOPED EFFORT WOULD BE MADE IMPRESS PRESIDENT WITH PROBLEMS HE LIKELY ENCOUNTER BY PURSUING PREMATURE ZAMBIANIZATION. SAID SWEDISHAMBASSADOR TOLD HIM THIS WOULD BE SWEDISH LINE WITH GRZ.NELSON

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